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INFO RUCNCIS/CIS COLLECTIVE 1320
RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 0699
RUEHKO/AMEMBASSY TOKYO 1402
RUEHUL/AMEMBASSY SEOUL 0386
RUEAIIA/CIA WASHDC
RHEFAAA/DIA WASHDC
RHEHNSC/NSC WASHDC 0881
RUEKJCS/SECDEF WASHDC 0794
RUCPDOC/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RHMFIISS/CDR USCENTCOM MACDILL AFB FL
RUEKJCS/JOINT STAFF WASHDC

S E C R E T SECTION 01 OF 03 ASTANA 000420

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STATE FOR SCA/CEN, EEB/ESC
STATE PLEASE PASS TO USTDA DAN STEIN

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TAGS: PGOV ECON EINV EPET RS CH KZ
SUBJECT: KAZAKHSTAN: NO GRAND BARGAIN IN THE WORKS

REF: A. (A) EEB DAS HENGEL EMAIL OF 03/05/09 (NOTAL)
 1B. (B) ASTANA 0386
 1C. (C) ASTANA 0382
 1D. (D) ASTANA 0344

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Classified By: Ambassador Richard E. Hoagland, 1.4 (b), (d)

¶1. (S) SUMMARY: As EEB DAS Hengel conveyed to the Ambassador (ref A), a Shell oil executive expressed concern on March 4 that economic problems in Kazakhstan increase the likelihood that the government will turn to Russia or China for financial assistance. If that were to happen, Shell is concerned that Kazakhstan would reorient its foreign policy away from the West and would seek to renegotiate yet again the terms of the Kashagan project, in which Shell and other international oil companies have invested billions of dollars. We have no credible evidence that suggests that the Russian or Chinese governments are preparing to offer significant financial assistance to Kazakhstan, and no evidence that Kazakhstan needs such outside assistance -- yet. The government still has deep pockets, and is implementing a broad program to mitigate the effects of the global financial crisis which has received praise from international financial institutions. END SUMMARY.

KAZAKHSTAN OFFICIALS DETERMINED TO MANAGE ECONOMIC CRISIS

¶2. (S) Ref A reports that a Shell executive told EEB DAS Hengel on March 4 that the Kazakhstani economy is experiencing serious problems. He expressed concerns that Kazakhstan might turn to Russia or China, rather than the IMF, for financial help, and said there are rumors that the Russians have offered Kazakhstan significant assistance in return for reorienting their foreign policy away from the West and more toward Russia. The executive also implied that a Kazakhstani shift toward Russia could lead to new Kazakhstani efforts to renegotiate the contract terms for the Kashagan oil and gas field, in which Shell and several other western companies have major ownership stakes.

¶3. (SBU) We have reported in detail on the effects of the

global economic crisis in Kazakhstan (refs B, C, D). The Kazakhstani economy does face serious problems, as the Shell executive asserted, particularly in the banking sector. However the Kazakhstani government has deep pockets -- well over \$40 billion in reserves -- and has openly acknowledged the need to take extraordinary measures to manage the situation and preserve social stability. As previously reported, these measures have included a 22 percent devaluation of the currency, nationalization of two of the country's largest private banks, and plans to invest up to 2.7 trillion tenge (approximately \$18 billion), nearly 18 percent of GDP, in projects to support the financial-services industry, agriculture, infrastructure and innovation, housing construction and mortgage lending, and small- and medium-sized enterprise development. As Shigeo Katsu, World Bank regional vice president for Europe and Central Asia, said after meeting Prime Minister Masimov on February 23, Kazakhstan's anti-crisis program "contains strong policy measures designed to improve the resilience to crisis of all segments of Kazakhstan's society.... The government has taken the right track with crisis mitigation and demonstrates strong leadership."

NO EVIDENCE OF A GRAND BARGAIN WITH RUSSIA OR CHINA

¶4. (C) We have seen no evidence that Russia -- or China -- has offered Kazakhstan an assistance package in exchange for reorienting its foreign policy or granting access to or ownership of Kazakhstan's natural resources. Furthermore, we have no evidence or indication that the Kashagan project has experienced further delays that would give the government cause to renegotiate Kashagan's terms yet again, particularly something as drastic as changes to the

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consortium's ownership structure. Several international oil company representatives in Kazakhstan share that view. For example, on March 5, Patty Graham, Government Relations Director for ExxonMobil Kazakhstan, told Energy Officer that Kazakhstan has resisted overtures from China to trade loans for oil or infrastructure. "The Chinese National Petroleum Company submitted a proposal to acquire 49 percent of MangistauMunaiGas," she said, "but the Kazakhstanis appear to have rejected it. They are very reluctant to give the Chinese ownership of any significant oil production assets, even though they desperately need the cash." (NOTE: India's Oil and Natural Gas Corporation is now believed to have an inside track on this attractive asset, following President Nazarbayev's visit to India on January 26. END NOTE).

¶5. (SBU) On March 4, Dan Worrall, Shell's Corporate Affairs Manager in Kazakhstan, told Energy Officer that Russian investment in Kazakhstan's oil and gas sector has been severely restricted in recent months. He cited, for example, Lukoil's decision to cut global expenditures by 20 percent, and said Lukoil's investments in Kazakhstan have been cut even more drastically, to the point where Lukoil canceled a lease on new office space in a prominent building in central Astana. We also understand from sources at the Karachaganak Petroleum Operating Company (KPO) that Gazprom backed out of plans to invest millions of dollars in a new gas processing plant in Orenburg, ostensibly because KPO decided to delay Phase III of the project, but we suspect that cost was a factor in the decision.

KAZAKHSTAN TO USE ENERGY REVENUE FOR PRIORITY PROJECTS

¶6. (C) Although Kazakhstan does not appear poised to accept outside financial assistance to help manage the effects of the global crisis, President Nazarbayev is keen to cut costs, save jobs, and invest in infrastructure. On March 6, in his annual address to the nation, Nazarbayev indicated that revenue from oil and gas would finance priority projects. "We need fresh funds," he said. "I deem it expedient to use the revenues generated by the mineral resource sector, which we have traditionally accumulated in the National Fund, to

finance the new plan," which he said will cost 600 billion tenge (approximately \$4 billion), in addition to money already transferred from the National Fund.

NO PLANS TO BORROW FROM THE IMF

17. (SBU) On October 20, 2008, Prime Minister Masimov told Bloomberg, "We have our own specific plan to survive without any external support. I don't think we need support from the International Monetary Fund (IMF) or overseas." On March 6, the IMF's local representative Olga Bisekeeva told Energy Officer that the Fund has "no plans" to offer a loan package to Kazakhstan, although she said that the IMF mission head for Kazakhstan would visit the country in May to meet with government officials and assess the impact of the economic crisis.

18. (C) COMMENT: We doubt that even if Kazakhstan did need assistance, Russia could come up with a figure large enough to entice the Kazakhstani. We would be talking about tens of billions of dollars, not the \$2 billion or so in grants and loans the Russians apparently offered the Kyrgyz to close Manas. Some believe the Russians can't even afford to follow through the Kyrgyz package. It would appear that only an international financial institution like the IMF has sufficient funds for a Kazakhstan bailout, if it ever came to that. In addition, in his March 6 speech to Parliament, President Nazarbayev said he is looking forward to celebrating the 20th anniversary of Kazakhstan's independence in 2011: "The dreams of our ancestors are coming true," he said. Kazakhstan clearly values its independence and sovereignty too much to make a grand bargain with Russia or China that would limit its foreign policy flexibility. END

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COMMENT.
HOAGLAND